

# ARTICLE

## THE EUROPEAN COMMISSION "SURPRISES" WITH A PROPOSAL FOR REGULATION ON STANDARD ESSENTIAL PATENTS

Brevets | 02/05/23 |

On 27 April 2023, the European Commission announced a proposal for a regulation in the field of standard essential patents[1]. Drafts of the proposal "leaked" some weeks ago and several players (including major licensors, implementers, ETSI, and even officials from U.S. administrative bodies) have already publicly expressed their concerns while other supported the initiative.

Along the start of the Unified Patent Court in June, this proposed regulation, if adopted as is, would change the game in the telecommunications sector.

### BACKGROUND

The definition of industry standards sometimes involves inventions that are protected by patents. This is known as a "*standard essential patent*" (SEP). This is particularly the case in the field of telecommunications, where standards (like 3G, 4G, 5G) enable the interoperability of products or services offered by players in the field.

In order to ensure free access to the market, telecom standards institutes (such as ETSI in Europe) require standards contributors to declare all their patents or patent applications covering this contribution. In addition, the holder must irrevocably commit to granting a license to the patent(s) in question to any third party requesting it, under conditions that are said to be fair, reasonable, and non-discriminatory (called a "*FRAND license*").

The development of the telecommunications sector, the arrival of new players, and the multiplication of non-practicing entities ("*patent trolls*"), companies that use patent licensing (in particular SEPs) as their main economic activity, have led to the development of litigation relating to FRAND licenses. Initially concentrated in the United States, it has been exported to Europe, particularly to Germany, the United-Kingdom and more recently France.

FRAND licensing has become a major concern in other sectors where Internet of Things ("IOT") has become an important feature of the end products, like in the automotive sector for example.

### FRAND UNDER THE COMMISSION'S SCRUTINY

One of the cases that most caught the attention in Europe with respect to the interplay between patents and competition law is the Rambus case, a US based company participating in a Standard Setting Organization called JEDEC dealing with computer chips. Rambus was under an investigation from the European Commission (and also the Federal Trade Commission in the USA) between 2005 and 2009 because of an allegation of not having declared patents essential to the standard and having waited for the adoption of the standard for asserting its SEPs and requesting high royalties to implementers. The question arose of the so-called "*patent ambush*". In 2007, the Commission sent Rambus a Statement of Objections notifying an alleged abuse of dominant position. In reply, Rambus quickly proposed commitments addressing the objections which led the Commission not to take any sanction but simply held the commitments legally binding on Rambus[2].

In 2012, the issues set by patents in the standardization world resurfaced in two famous "*patent wars*", namely Samsung against Apple on the one hand and Motorola against Apple and Microsoft on the other hand, where FRAND licenses were negotiated under the threat of injunctions. Here again, the European Commission sent a Statement of Objections to which Samsung replied with commitments that the Commission held binding while not imposing sanctions[3]. Motorola on its side was ordered to stop any injunction threats.





Faced with these injunction requests in the course of licensing negotiations, the Landgericht of Dusseldorf requested a preliminary ruling of the CJEU in order to obtain guidance on how to conciliate the right to injunction of patent holders with their FRAND obligations. In its famous ruling of 16 July 2015, the CJEU defined the so-called FRAND-dance by which the parties to a FRAND litigation had to comply with specific steps in order to make it possible for the patent holder to request an injunction from a court. Even though the CJEU ruling provided guidance for the court to assess injunction requests, they were still faced two major issues in FRAND litigation, namely the characterization of the implementer's willingness to obtain a FRAND license and the determination of the FRAND rate itself, should the parties not agree on such terms.

Well aware of the problematic of the FRAND litigation in the European Market, but also of the worldwide competition between jurisdictions to rule on these issues (especially the US, UK, Chinese and Indian courts), the Commission had long announced its willingness to intervene.

This started with a public consultation in 2014 and a report[4] on patents and standards where several principles were already promoted by the Commission like increasing transparency (SEP disclosure, essentiality checks, dispute resolution mechanisms, FRAND royalties' definitions etc.).

In 2017, the Commission, backed by the European Council, further published its views[5] "*Setting out the EU approach to Standard Essential Patents*" where it announced a close monitoring of the SEP licensing market and the assessment of measures to "*ensure a balanced framework smooth, efficient and effective licensing of SEPs*".

An expert group was set up in 2018 and published a report in 2021[6] where several proposals were made based on the key aspects of FRAND litigation: transparency of SEPs (declarations, essentiality checks, validity), licensing in the value chain, FRAND terms (royalty rate approaches), dispute resolution and patent pools promotion.

In parallel, in 2020, the Commission published an action plan[7], noting an increase in SEP licensing disputes in the automotive sector and the potential for other disputes in other IoT sectors. The Commission announced its intentions to reform the SEP licensing system.

### **THE COMMISSION'S "SURPRISE"**

Even though the leak of the draft regulation before its public announcement was a surprise to the players in the field, it appears to be in the continuity of the work initiated by the Commission in the past years. In its impact assessment report, the Commission adopted an incremental logic in the possible approaches to the draft regulation. Five incremental options have been considered (each option adds to the previous one):

- **Option 1:** General guidance on how to conduct FRAND negotiations with the promotion of the WIPO mediation center as a dispute resolution means and specific assistance to SMEs dealing with FRAND license claims.
- **Option 2:** Establishment of a register of SEPs with essentiality checks and mandatory declaration of SEPs as a condition for enforcement.
- **Option 3:** Confidential conciliation procedure between parties with a public version of a conciliation report with a FRAND rate determination methodology.
- **Option 4:** Determination of an ex ante and non-binding aggregate rate for all SEPs.
- **Option 5:** Establishment of a clearing house as a onestop-shop for implementers with a binding aggregate royalty determination and the possibility for implementers to deposit a corresponding escrow thereby preventing SEP Holder from initiating infringement proceedings.

The proposal adopts the 4th option.

A competence centre is established within the EUIPO in order to perform the several procedures instituted.

The proposed regulation is built on four pillars:

- **Public information** on SEPs with the establishment of a Union register for SEPs and an electronic database for SEPs (Title III of the proposed regulation),
- Appointment and selection of **evaluators and conciliators** for assessing essentiality of SEPs and determining FRAND rates (Title IV of the proposed regulation).
- Institution of a procedure of **essentiality checks** of SEPs (Title V of the proposed regulation).



- Institution of a procedure for the **determination of FRAND terms** (Title VI of the proposed regulation).

## **SUMMARY**

The proposed regulation describes the various instruments created over 72 articles which give a quite detailed description of the proceedings and the interplay with other judicial and administrative bodies like EU courts, foreign courts, EU customs, Standard Setting Organizations etc.

**Title I** determines the subject matter and the scope of the proposal with a stress on transparency that the regulations attempts to achieve. **Title II** creates a competence centre within EUIPO to manage the Procedures created by the proposed regulation. **Title III** includes the provisions detailing the way the Union register for SEPs will be managed as well as the electronic database. **Title IV** provides rules for the selection of candidate evaluators and conciliators. **Title V** details the procedure for essentiality checks. **Title VI** details the procedure for FRAND determination. The final titles contain provisions specific to communications and time limits (**Title VII**), SMEs (**Title VIII**), fees and charges (**Title IX**), administrative matters (**Title X**) including evaluation, entry into force and amendment to regulation 2017/1011 (notably instituting the EUIPO).

## *The Union register and the database for SEPs*

The **Union register** and the **database for SEPs** are intended to provide any third party, registered with the Competence centre, with very detailed and complete information regarding standards, SEPs and non-confidential information with respect to FRAND licenses.

### **SEPs**

*Notably:*  
→ Lists of SEPs  
→ Lists of standards covered by the SEPs  
→ Lists of products and services potentially covered by the SEPs

### **FRAND**

*Notably:*  
→ References for FRAND commitments  
→ Contact details for benefiting from FRAND licenses  
→ Terms and conditions for FRAND licenses  
→ Royalty rate and discount policies  
→ Availability of licenses through patent pools

### **INFORMATION**

*Notably:*  
→ Information on FRAND determinations  
→ Judicial decisions on FRAND litigation  
→ Information on SEP rules in third countries  
→ Notifications of aggregate royalty rates for a standard

The publication of such information obviously creates quite stringent information obligations upon **SEP holders** but also **patent pools**, **Standard Setting Organizations**.

## *Conciliators and Evaluators*

**Conciliators** and **evaluators**, are part of rosters of a limited number of candidates for a limited period of time. The rosters are to be reviewed regularly and the Commission should adopt an implementing act to specify a code of conduct and procedures for their tasks. There may be different rosters based on technical areas and/or specialization or expertise.

### **Conciliators**

→ **Conduct** FRAND determinations  
→ **Mediate** in establishing **aggregate royalty rates**  
→ Provide **non-binding opinions** on aggregate royalty rates  
→ Have **specializations**  
→ **3 conciliators selected** per FRAND determination (parties agree on one)  
→ **Invite** parties to file observations, **hear** experts and witnesses  
→ Have access to **confidential parts** of reports of other FRAND determinations

### **Evaluators**

→ **Conduct** essentiality checks  
→ Have **technical specializations**  
→ Consider **observations from SEP holder**  
→ Can have their opinions reviewed by **peer evaluators** (upon request from SEP holder)  
→ Opinions **not legally binding** but can serve as evidence in courts  
→ **Review possible** before the Boards Of Appeals of the EUIPO on procedural grounds only



## Essentiality checks of SEPs

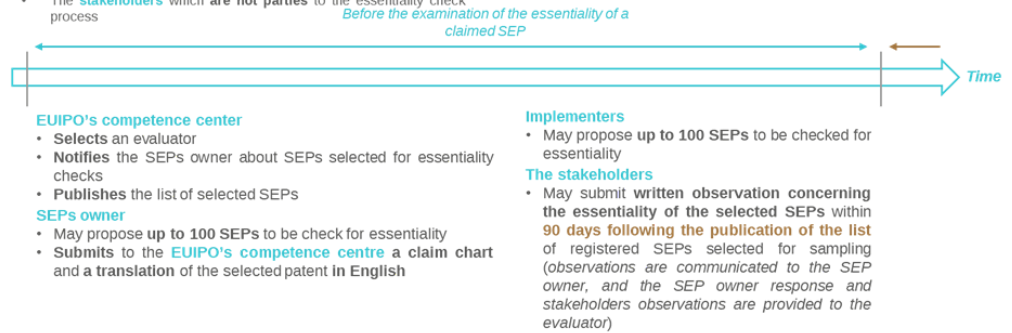
### Who is involved in an essentiality procedure ?

→ Four parties are involved in an essentiality checking procedure :

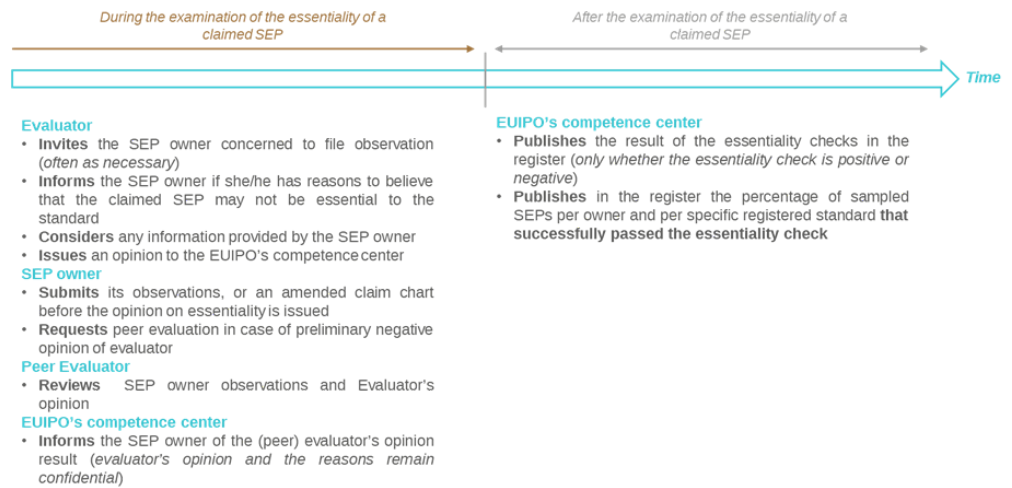
- The **EUIPO's competence center**
- The **SEPs owner**
- **Implementers**
- An **evaluator** from the roster of evaluators, selected by EUIPO's competence center. **identity remains undisclosed** to the SEP owner during the examination.
- The **stakeholders** which are **not parties** to the essentiality check process

### How often the essentiality checking procedure is done ?

→ Every year, the **EUIPO's competent center** selects a sample of claimed SEPs from **each SEP owner** and from **each specific standard** in the register for **essentiality checks** (*claimed SEPs of SMEs are excluded from the annual sampling process*)



## Essentiality checks procedure



## FRAND determination

The **FRAND determination** is defined as a structured procedure initiated at the request of any party (SEP holder or implementer), in which a conciliator, assists the parties to determine FRAND terms and conditions, may request evidence from the parties and should issue a non-binding proposal and a report, if the parties are unable to resolve their dispute. The FRAND determination is a global SEP license, unless otherwise agreed by the parties.

### Who can initiate a FRAND determination ?

→ The FRAND determination can be initiated by :

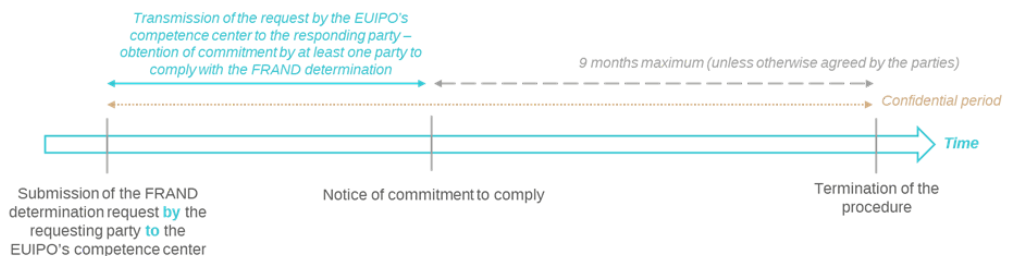
- A **SEP owner**.
- A **SEP prospective implementer**.

### When initiate a FRAND determination ?

→ **At any time but prior** to any infringement proceedings before a court of a Member State or the Unified Patent Court (UPC) or FRAND rate determination proceedings before a court of a Member State.

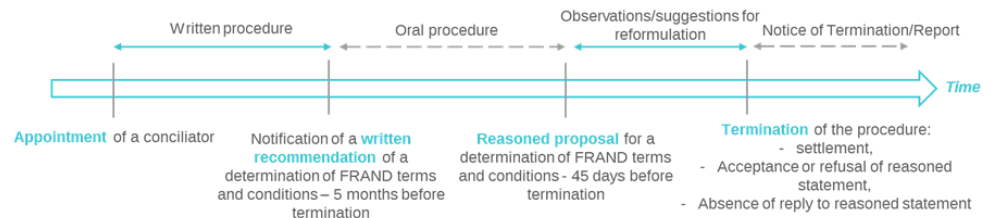
### HOW to initiate a FRAND determination ?

→ By submitting a **written request** to the EUIPO's competence center (*the request shall contain the registration numbers of the SEPs, the standards covered, summary of licensing negotiations, references to prior FRAND determinations, claims charts, prior essentiality checks, proposal for FRAND determinations*).



## FRAND determination procedure

The **FRAND determination proceedings** are led by a conciliator appointed from the roster of conciliators. The conciliator assists the parties in their endeavour to reach a determination of FRAND terms and conditions. The determination is published in the SEP register. A confidential report may be drawn up.



### Early termination possible:

- One party does not commit to comply, withdraws its commitment or does not comply with its duties and the other party does not request continuation of the procedure
- Objection to the FRAND determination on legal grounds (previous binding obligations)
- Agreement of the parties,
- Parallel FRAND proceedings are initiated by a party in a third country (upon request of any party)

## OUTLOOK

At the time the drafts leaked, the regulation proposal already received criticisms from all sides (licensors, licensees, standard setting organizations, patent pools). Slight changes have been made in the published proposal, but it is far from generating enthusiasm.

FRAND litigation and FRAND worldwide rate setting is indeed subject to hard forum shopping battles and the stakes are very high.

One can only expect interventions at the EU level to have the proposal amended. Some doubted the UPC would come into force, some doubted the Commission would intervene in the FRAND discussions, should we doubt the regulation will come into force?

[1] [https://single-market-economy.ec.europa.eu/publications/com2023232-proposal-regulation-standard-essential-patents\\_en#details](https://single-market-economy.ec.europa.eu/publications/com2023232-proposal-regulation-standard-essential-patents_en#details)

[2] COMMISSION DECISION of 9.12.2009 relating to a proceeding under Article 102 of the Treaty on the Functioning of the European Union and Article 54 of the EEA Agreement Case COMP/38.636 – RAMBUS: [https://ec.europa.eu/competition/antitrust/cases/dec\\_docs/38636/38636\\_1203\\_1.pdf](https://ec.europa.eu/competition/antitrust/cases/dec_docs/38636/38636_1203_1.pdf)

[3] Summary of Commission Decision of 29 April 2014 relating to a proceeding under Article 102 of the Treaty on the Functioning of the European Union and Article 54 of the EEA Agreement (Case AT.39985 — Motorola — Enforcement of GPRS standard essential patents): [https://ec.europa.eu/competition/antitrust/cases/dec\\_docs/39985/39985\\_928\\_16.pdf](https://ec.europa.eu/competition/antitrust/cases/dec_docs/39985/39985_928_16.pdf)

[4] Patents and Standards, A modern framework for IPR-based standardization: <https://pure.tue.nl/ws/files/3916785/391736021255721.pdf>

[5] COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE Setting out the EU approach to Standard Essential Patents: <https://ec.europa.eu/docsroom/documents/26583>

[6] Group of Experts on Licensing and Valuation of Standard Essential Patents 'SEPs Expert Group' (E03600) Contribution to the Debate on SEPs: <https://ec.europa.eu/docsroom/documents/45217>

[7] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Making the most of the EU's innovative potential An intellectual property action plan to support the EU's recovery and resilience of 25 November 2020, COM (2020) 760 final. <https://ec.europa.eu/docsroom/documents/43845>

